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Procedia Economics and Finance 32 (2015) 1590 – 1597

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

Emerging Markets Queries in Finance and Business

Flexibility and simplification of EU' Financial Regulation in the future programming period 2014-2020

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Abstract

The paper examines some of the new trends in EU Financial regulation that directly impact the EU budget execution. The New EU financial regulation, valid from 01.01.2013, allows a more effective use of its own resources and establishes simpler rules and clearer implementation procedures for beneficiaries. In this way, an easier, faster and integral access to the Community funds is possible, allowing the EU budget to exercise its role of stabilizing the Union. In the future programming period 2014-2020, different instruments, such as loans, equity or guarantees will be used to enhance the effectiveness of EU funds and thus to enhance their financial impact. The paper also makes reference to other pieces of EU regulation, which have the purpose of addressing the weaknesses identified as a consequence of the financial crisis. Structural Funds Regulations, applicable in the future programming period 2014-2020, aimed to increase the efficiency of structural instruments, so important in the current economic and fiscal climate. However, the debate continues about the possibility of improving the EU budget, its revenue and expenditure, to comply with several financial relevant principles (economic efficiency, equity, stability, visibility and simplicity, effectiveness administrative costs, autonomy financial).

Selection and peer-review under responsibility of Asociatia Grupul Roman de Cercetari in Finante Corporatiste

Keywords: common strategic framework, financial regulation, simplification, financial instruments, EU funds

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Selection and peer-review under responsibility of Asociatia Grupul Roman de Cercetari in Finante Corporatiste
doi:10.1016/S2212-5671(15)01550-6

1. Introduction

The economic and financial crisis of 2007, which, according to some, is not over yet in some UE Member States, has had a significant negative impact on the public finances of the European Union, as it determined the drastic reduction of the budgetary revenues, the increase of the government deficit in most of the UE Member States and the decrease of the revenues of the natural persons and of the legal entities. The UE response to the crisis consisted in: support to Member States in financial difficulty, the creation of new legislative and institutional acts ("Six- Pack", "Two-Pack", Fiscal Compact, ESM, Single Supervisory Mechanism at the ECB), legislation to support entrepreneurship, obtaining funding by means of grants and the increased use of the UE financial instruments, identification of the political priorities of the European Union (the Europe 2020 Strategy).

In this context, the challenge to overcome the economic crisis leads to considerations on how non-repayable funds made available by the European Union can be used in a simpler more accountable, effective and efficient way. This also means knowing and respecting the New Financial Regulation of the European Union, published the Official Journal of the UE on the 26.10.2012 and entered into force on the 1.01.2013.

The Financial Regulation of the European Union is the document containing the financial norms of the European Union and establishing the way in which its budget is spent. The European Commission must continuously assess the way it manages the EU funds, but there is also a formal requirement to revise the EU Financial Regulation and its Implementing Rules of Application at least once every three years. The legislative procedure of simplifying the EU Financial Regulation was initiated by the European Commission by the proposal COM (2010) 815 final, on the 22.12.2010, after a public consultation which started on the 19.12.2009 and led to 235 contributions of all the interested parts having benefited of or implementing EU funds.

In the context of the new financial perspective 2014-2020 and in order to better contribute to the achievement of the Europe 2020 goals, the new UE Financial Regulation brings three major types of changes in terms of:

- simplification: cutting red tape, speeding up procedures and shifting the focus from paperwork to performance;
- accountability: ensuring enhanced sound financial management and the protection of the EU's financial interests;
- leverage: introducing financial mechanisms which will enable the mobilization of third-party funds as leverage on EU funds

The Council Regulation of 25.11.2013 laying down the multiannual financial framework for the years 2014-2020 stipulates, besides the general dispositions, the use of certain special instruments to react to specified unforeseen circumstances: the Emergency Aid Reserve, the European Union Solidarity Fund, the Flexibility Instrument, the European Globalization Adjustment Fund, the Contingency Margin and the ways of revising the multiannual financial framework. This multiannual financial framework for the years 2014-2020 amounts to EUR 959.988 million in commitment appropriations and EUR 908.400 million in payment appropriation. Most of the commitments for the period 2014-2020 are destined to Smart and Inclusive Growth, Sustainable Growth; Natural Resources benefits of 38,87% of the total amount.

In the paper Restructuring Financial Regulation in the European Monetary Union, by Xavier Vives, CSIC, Barcelona, Spain, published in the Journal of Financial Services Research 2001, the author shows that the Financial Regulation has been traditionally revised and developed as a response to the crisis and also indicates the role of the financial regulation institutions within the European Monetary Union for maintaining stability and stimulating the European economic integration.

In the paper EU Financial Instruments Landscape for RDI and Growth 2014-2020 of June 2013, by Jean-David Malo, published in the EuroNanoForum 2013, the author presents the former financial instruments used in the programming period 2007-2013 in order to enhance research, development and innovation, the new financial instruments to be used in the current programming period and comparative aspects.

In COM(2012) 42 final, laying down the multiannual financial framework for the years 2014-2020, based on public consultations and the request of the Member States and of the European Institutions the Commission invites to reduce the administrative burden for beneficiaries of funds and for all actors involved in spending the EU funds and to speed up the absorption of EU funds by the Member States.

The simplification efforts made in the European Union will not be fully effective unless they are accompanied by parallel efforts on a national and regional level, especially concerning actions within the Common Agricultural Policy and the Regional Policy.

The simplification process of the European Union budgetary norms does not end with the adoption of the new financial regulation and of the other related acts. The European Commission will follow-up the implementation of the final acts in order to monitor how the simplified rules will function in practice and in order to assess and quantify, if possible, their effect on the ground, and to propose modification of the rules agreed at the EU level, if necessary. This process will be implemented by the periodic release of a scoreboard, meant to survey the simplification measures proposed by the Commission.

2. The simplification of the EU financial regulation

The European Commission must take measures in response to the need of simplifying the implementation of EU programmes, thus reducing the administrative burden and the costs for beneficiaries of funds and for all actors involved.

To achieve this, the Commission has proposed the rationalization of programmes for the financial period 2014-2020 and the use of simplified implementation mechanisms and procedures. The experience of the last two programming periods has shown that frequent changes in rules can also reduce legal certainty for beneficiaries and create instability for national and regional administrations. Since a radical overhaul of the legislative framework could increase the complexity of management, the Commission's proposals focus on areas where practical simplification can be attained. (COM (2012) 42 final, 2012).

The simplification of the UE Financial Regulation refers mainly to the alternatives to actual costs, that is lump sums (payments against delivery), flat rates (percentages meant to cover certain categories of costs) and unit costs. The simplified forms of grants have considerable potential to lessen the administrative burden of all stakeholders by reducing the requirements of financial reporting in the case of flat rates, or even replacing it by reporting of outputs and results in the case of standard scales of unit costs and lump sums. This should enable beneficiaries to focus on the results estimated in the grant application.

The maximum threshold per lump sum payment (currently EUR 25 000) will be removed and the European Commission will determine the amounts depending on the nature of the programme. The lump sums and the unit costs will be calculated on the basis of the historical data of the individual beneficiary or on the basis of usual accounting practices.

Beneficiaries will be entitled to receiving money due to them within the deadlines of 30, 60 or 90 days; missing a deadline will create an entitlement to late-payment interest for the beneficiary. Beneficiaries applying for grants of up to EUR 25,000 are already exempt from submitting certain documents. This threshold will be raised to EUR 60,000.

Under the new rules, national fund managers for structural and other EU funds destined to agriculture and rural development under shared management will have to issue annual management declarations that will be subject to independent audit. Provisions on indirect management where Member States' national agencies, third countries, international organizations or other authorized bodies implement EU funds will be harmonized and streamlined.

The new Financial Regulation makes it possible for the commitment appropriations which have not been used by the end of a financial exercise to be carried over to the next year, for the projects funded under the Connecting Europe Facility and in case of the Emergency Aid Reserve, amounting to EUR 280 million.

Other simplifications brought about by the new Financial Regulation refer to common complementary rules covering several funding instruments and programmes (COM(2012) 42 final, 2012):

- To bring together the three main sources of funding for research and innovation and technological development within a single common strategic framework for research and innovation in the Horizon 2020 Framework Programme;
- To establish the Connecting Europe Facility (CEF), a unique instrument for EU priority infrastructure investments (transport, energy and telecommunication);
- To establish the Common Strategic Framework (CSF), for the ERDF, ESF, CF, EAFRD and EMFF;
- To establish a common instrument for the Asylum and Migration Fund and all components of the Internal Security Fund;
- To provide for a horizontal instrument laying down common rules and procedures for the implementation of the Union's instruments for external action.

The Commission's sector-specific legislative proposals for the post 2013 develop and complete the simplification exercise with rationalized spending programmes and instruments for all EU policy areas. These proposals enhance the harmonization of funding rules, improve legibility and transparency of rules in order to increase legal certainty and introduce a series of specific practical simplification measures, including more proportionate control measures attuned to the risk environment and aimed at providing reasonable assurance at a reasonable cost. Simplification can take many forms: reduction in the diversity of rules across different instruments, measures which simplify performance assessment, the possibility to choose arrangements which are suitable for particular circumstances, more proportionate control and reporting requirements, widespread use of e-Governance tools.

To conclude, the simplification is a common challenge and responsibility for the EU institutions and for the EU Member States.

3. New financial instruments of the EU

EU’s financial instruments help to mobilize additional public or private co-investments in order to address market failures in line with Europe 2020 and cohesion policy priorities. Their delivery structures entail additional expertise and know-how, which helps to increase the efficiency and effectiveness of public resource allocation.

Financial instruments have been used for delivering investments for Structural Funds since the 1994-1999 programming period. Their relative importance has increased during the programming period 2007-2013 and they now represent around 5 % of total European Regional Development Fund (ERDF) resources. In the light of the increasing scarcity of public resources, financial instruments are expected to play an even stronger role in cohesion policy in the 2014-2020 programming period.

In the 2014-2020 programming period, in contrast to the previous periods, Member States and managing authorities may use financial instruments in relation to all thematic objectives covered by operational programmes and for all Funds, where it is efficient and effective to do so. The new framework also contains clear rules to enable better combination of financial instruments with other forms of support, in particular with grants, as this further stimulates the design of well-tailored assistance schemes that meet the specific needs of Member States or regions.

Managing authorities may design financial instruments on the basis of an ex ante assessment that has identified market failures or sub-optimal investment situations, possible private sector participation and resulting added value of the financial instrument in question.

Across Member States and regions, the operational environment for financial instruments, as well as the administrative capacity required for their successful implementation, very significantly. Against this background, the European Commission’s proposal offers different implementation options from which Member

States and managing authorities may choose the most suitable solution. (European Commission's Factsheet - Financial Instruments in Cohesion Policy 2014-2020):

- Financial instruments set up at EU level and managed directly by the Commission: operational programmes contributions to the financial instruments will be ring fenced for investments in regions and actions covered by those programmes from which resources were contributed.
- Financial instruments set up at national/regional level and under shared management: managing authorities have the possibility of contributing programme resources to already existing or newly created instruments, tailored to specific conditions and needs; or to standardized instruments, for which the terms and conditions will be pre-defined and laid down in a Commission Implementing Act. These instruments should be ready-to-use for a swift roll-out.
- loans or guarantees may be implemented directly by managing authorities themselves. In such cases, managing authorities will be reimbursed on the basis of the actual loans provided or guarantee amounts blocked for new loans, and without the possibility to charge management costs or fees to the CSF Funds.

In terms of financial incentives, the EU co-financing share will be increased by 10% in cases where a priority axis is fully implemented through financial instruments.

In the 2014-2020 programming period the importance of Smart and inclusive growth increases. If during the 2007-2013 financial framework, the resources allocated to Smart and inclusive growth represented 44,6% of the total commitment appropriations, during the current financial framework, they represent 49,96% of the total commitment appropriations, as the volume of commitment appropriations has increased by 11,09%. Instead, the share of resources allocated to Sustainable Growth diminishes: Natural Growth decreases from 42,57% to 38,87% of the total commitment appropriations.

Therefore, we estimate the increase of EU resources allocated to research, development and innovation in the current programming period. In the 2007-2013 programming period, the debt instrument for large R&D projects was used as an incentive to research and innovation: the Risk Sharing Finance Facility under FP7, offering loans and guarantees for research and innovation projects and the SME Guarantee Facility (SMEG) under the Competitiveness and Innovation Framework Programme (CIP). In the current 2014-2020 programming period, the debt instrument for large R&D projects will be used under Horizon 2020 Programme: Loans and guarantees to R&I (non-SMEs) for activities of mid-caps and large firms, universities, research institutes, research infrastructures, guarantees and securitization on loans for all types of SMEs under COSME Programme, guarantees on loans for R&I-intensive SMEs, under Horizon 2020 Programme, guarantees for loans to creative and cultural entities under Creative Europe Programme. (Jean-David Malo, 2013).

The new financial regulation allows the EU to establish trust funds. They will be managed by the Commission and implemented at accountability standards as high as those applicable to the EU budget. Trust funds in external action are funds pooled from a number of donors, in particular the EU, its Member States, third countries, international organizations or private donors such as citizens to provide support to agreed objectives. These can relate to the fight against a certain disease, or focus on providing relief in cases of urgency, such as a natural disaster. The new possibility of EU Trust Funds will increase European coordination of financial support in external action and will also enhance the visibility of EU and Member States' external aid.

4. New regulations of the structural funds applicable in the programming period 2014-2020

The reformed cohesion policy in the future programming period 2014-2020 will be the EU's principle investment tool for delivering the Europe 2020 goals: creating growth and jobs, tackling climate change and energy dependence, and reducing poverty and social exclusion. This implies three goals:

- Smart, sustainable and inclusive growth
- Attaining common indicators, specific to programmes, reporting, monitoring, evaluation;

- Maximizing the impact of the available EU funding

Overall, the reformed cohesion policy will make available up to EUR 366.8 billion to invest in Europe's regions, cities and the real economy. In figure 1 we have the allocation of EU budgetary resources, according to the cohesion policy goals.

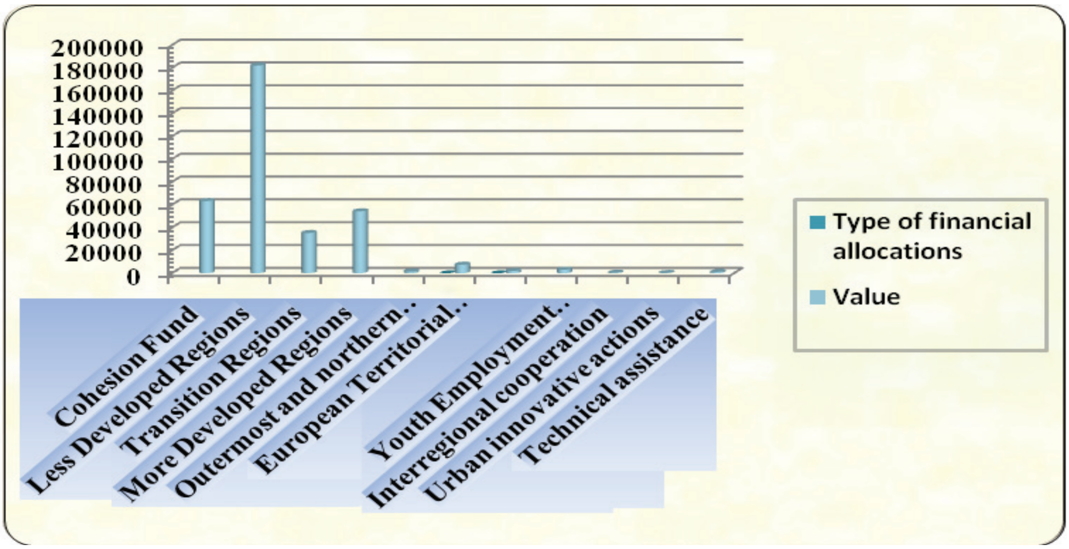

Fig. 1. Total EU allocations of Cohesion Policy 2014-2020* (million €, current prices)

In order to improve the coordination and harmonization of structural funds implementation: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF) with the European Agricultural Fund for Rural Development (EAFRD) implementation and the European Maritime and Fisheries Fund (EMFF) implementation, the regulation proposed by the European Union contains common provisions for ERDF, ESF and CF, but which do not apply to EAFRD, as well as common provisions for ERDF, ESF, CF and EMFF, but which do not apply to EAFRD. The first part of the regulation establishes common rules which govern the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. The second part establishes common rules which govern the three structural funds used to deliver the cohesion policy goals: the European Regional Development Fund, the European Social Fund and Cohesion Fund (CF).

The new”common strategic framework” (CSF), proposed by the EC and adopted in April 2013 will offer a unique guideline for the CSF funds of the EU: ERDF, ESF, CF, EAFRD ;I EMFF, so that it will increase the efficiency of structural instruments and will simplify the procedures.

The CSF funds will be allocated on the basis of a fait system of three categories of regions, classified according to the GDP per capital:

- less developed regions: GDP per capita of less than 75% of the EU average
- transition regions: GDP per capita of less than 90% of the EU average
- more developed regions: GDP per capita above 90% of the EU average

According to the Europe 2020 Strategy, in the 2014-2020, the ERDF resources will concentrate on fields such as energetic efficiency, renewable energy sources, innovation, support to small and medium enterprises (SME) – at least 80% of the funds in the case of more developed regions and at least 50% in the less developed ones. Also, a minimum of 5% of ERDF resources will be allocated to sustainable and integrated urban development and to the creation of an urban development platform meant to promote cities exchanges. Special attention will be granted to the areas with specific natural or demographic characteristics, as well as a special allocation for outermost regions... (Cohesion Policy 2014-2020 – Investments in economic growth and employment - http://ec.europa.eu/regional_policy/index_fr.cfm)

In the current programming period, the Cohesion Fund, Member States with GDP per capita above 90% will focus, just as during the previous periods on: investments in climate change adaptation and risk prevention, investments in water and waste sectors, and also in the urban environment, energetic projects, provided that they constitute obvious benefits for the environments, investments in transeuropean transport networks, as well as in urban transport systems with low carbon emissions. For the first time, a part of the Cohesion Fund will be directed towards the “Connecting Europe” mechanism, which aims to develop a European competitive and sustainable transport system.

The new ESF regulation brings the following changes:

- Targeting the funds on four thematic objectives in line with the Europe 2020 Strategy, in order to maximize the financing impact.
- A greater emphasis is placed on combating youth and disadvantaged groups (such as migrants) unemployment; at least 20 % of the ESF should be allocated to promoting social inclusion
- Support to specific measures of promoting the equality between men and women and combating exclusion.
- Simplification of the ESF, with a greater emphasis of the simplification of procedures for small beneficiaries.
- A results-oriented approach in operational programmes management, through the common action plans.

CLLD is a specific tool for use at sub-regional level, which is complementary to other development support at local level. CLLD can mobilize and involve local communities and organizations to contribute to achieving the Europe 2020 Strategy goals of smart, sustainable and inclusive growth, fostering territorial cohesion and reaching specific policy objectives.

For the period 2014-2020, the Commission proposes a single methodology regarding CLLD for the CSF Funds, allowing their connected and integrated use:

- focuses on specific sub-regional territories;
- is community-led, by local action groups;
- is carried out through integrated and multi-sectoral area-based local development strategies;
- includes innovative features in the local context, networking and, where appropriate, co-operation.

5. Conclusions

Still, the simplification and the flexibility of rules is a common responsibility of EU institutions and of the Member States, which means that combined efforts are necessary throughout the legislative process.

The simplification and flexibility efforts made in the European Union will not be fully effective unless they are accompanied by parallel efforts on a national and regional level, especially concerning actions within the Common Agricultural Policy and the Regional Policy.

The simplification process does not end with the adoption of legislation. The European Commission will follow-up how the simplified rules will function in practice and in order to assess and quantify, if possible, their effect on the ground, and to propose modification of the rules agreed at the EU level, if necessary.

From the budgetary point of view, the consolidation of financial instruments, as catalysts of public and private resources aims to support the Member States and regions to reach the levels of strategic investments which are necessary for the implementation of the Europe 2020 Strategy.

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